

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Sequoia Community Health Foundation, Inc. (SCH) 2790 South Elm Fresno, California 93706 Fresno County</p> <p>Project Site: 2505 Divisadero St., Fresno</p> <p>Facility Type: Community Clinic</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: July 31, 2003</p> <p>Resolution Number: HII-152</p>																								
<p>Policy Issue: Under the HELP II Loan Program guidelines, a first position lien is generally required on property and gross revenues. Staff recommends approval of an exception to these guidelines. Please refer to page 1 of the Staff Summary and Recommendation for additional information.</p>																									
<p>Use of Loan Proceeds: HELP II Loan proceeds, a HealthCAP loan and a Direct Loan from NCBDC will be used to purchase a building that is approximately 9,100 square feet and is already set up as a medical facility.</p>																									
<p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No, however SCH was a borrower under the Authority's Cal Pool Loan Program in 1988. This loan is no longer outstanding with the Authority.</p>																									
<p>Financial Overview: SCH's operating results have steadily improved over our review period. SCH's balance sheet remains solid with good liquidity and a satisfactory projected debt service coverage ratio.</p>																									
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<p>* Loan application in underwriting, pending National Cooperative Bank Development Corporation approval</p>																									
<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																									
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Sequoia Community Health Foundation, Inc., subject to a final appraised value on subject property satisfactory to the Authority, final approval of the HealthCAP loan and Direct Loan or other acceptable lender to the Authority, approval from Cal Mortgage to incur additional indebtedness and the standard HELP II loan provisions.</p>																									

**STAFF SUMMARY AND RECOMMENDATION
Sequoia Community Health Foundation, Inc. ("SCH")**

**July 31, 2003
Resolution Number: HII-152**

Policy Issue: Under the HELP II Loan Program guidelines, the Authority requires a first position lien on the secured property and on a gross revenue pledge. SCH is financing the project using a HealthCAP loan, a Direct Loan from NCBDC and its own resources. Since the loan to value estimate is 67% and given SCH's stable financial position, staff recommends the Authority accept a second position lien on the property and third position on a gross revenue pledge.

I. PURPOSE OF FINANCING: SCH proposes to use HELP II loan funds, \$538,420 in HealthCAP loan funds and a Direct Loan from NCBDC of \$321,580 to purchase property at 2505 Divisadero Street, Fresno, California in order to meet the demand for additional services. The building is approximately 9,100 square feet and includes three medical suites, two smaller suites each of approximately 1,500 square feet and one large suite of approximately 6,000 square feet. The building is located directly across from Community Medical Center (CMC), a large regional nonprofit hospital in downtown Fresno. CMC does not compete with SCH in providing primary care services. The target area has been designated as a Medically Underserved Area/Population, and is within both Enterprise and Empowerment Zones. The new site will provide primary care services to children, families and individuals with an emphasis on pediatric services in an integrated family practice setting. SCH estimates by purchasing this property, patient visits will increase by approximately 10,400 in the first year.

Acquisition of the property**\$1,400,000**

The proposed acquisition will be funded by a combination of a HELP II loan, a HealthCAP loan, a Direct Loan from NCBDC and borrower funds. The loan-to-value ratio is estimated to be 67%, based on an estimated appraised value at \$1.4 million. SCH entered into a purchase agreement with the sellers on April 30, 2003.

Financing Costs**38,100**

 Estimated NCBDC's fees\$30,100
 Authority fee5,000
 Estimated Title/escrow fees3,000

Total.....**\$1,438,100**

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Financing structure:

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,147).
- Total interest payments of approximately \$97,219.
- Second position lien (Subordinate to NCBDC loan of \$538,420) on subject property.
- The Direct Loan from NCBDC to be secured on other SCH property.
- Corporate gross revenue pledge, third lien position (Subordinate to Cal Mortgage and NCBDC. First and second respectively).
- This loan is being secured by collateral with an estimated value of \$1.4 million. (Appraisal is forthcoming).
- Maximum combined loan to value (consisting of a HealthCAP loan of approximately \$538,420 and HELP II loan of \$400,000) ratio of 67%.
- Approval from Cal Mortgage to incur additional indebtedness.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

SEQUOIA COMMUNITY HEALTH FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

UNRESTRICTED

	March 31 2003 (Unaudited)	For Year Ended Dec. 31		Jan. 31 2001
	2003	2002	2001 *	2001
Revenue:				
Patient Services, net	\$ 1,806,654	\$ 6,957,385	\$ 5,674,782	\$ 6,039,007
DHHS Grants	522,991	1,643,714	1,512,980	1,578,797
Contract Services & Other Grants	223,288	760,210	745,212	577,683
Other	28,012	107,382	191,513	188,131
Total Revenues	<u>2,580,945</u>	<u>9,468,691</u>	<u>8,124,487</u>	<u>8,383,618</u>
Expenses:				
Salaries & Wages	1,469,742	5,699,576	5,186,938	5,481,303
Fringe Benefits	358,021	826,924	684,464	719,159
Consultants & Contractual	118,850	407,898	178,092	149,585
Professional Services	35,715	123,160	143,668	189,113
Consumable Supplies	87,398	369,015	321,864	412,080
Space Costs	55,575	246,164	240,709	225,215
Depreciation & Amortization	91,063	365,931	243,313	224,926
Interest	55,391	238,667	221,189	237,538
Telephone	23,954	106,206	95,898	71,978
Pharmaceuticals	42,660	84,674	-	110,460
Laboratory	17,785	98,371	68,179	106,671
Travel, Conferences & Meetings	10,973	49,962	35,100	40,948
Dues & Subscriptions	11,461	56,009	32,506	29,409
Provision for Bad Debts	41,020	75,534	106,420	309,256
Personnel Recruitment	11,718	42,612	21,937	70,263
Repairs & Maintenance	11,056	96,362	116,501	146,650
Insurance	12,054	66,078	44,510	81,870
Printing, Publications & Postage	6,648	88,301	75,660	90,556
Other	24,660	54,895	61,594	218,674
Total expenses	<u>2,485,744</u>	<u>9,096,339</u>	<u>7,878,542</u>	<u>8,915,654</u>
Change in unrestricted assets	95,201	372,352	245,945	(532,036)
Net assets released from restrictions	12,486	80,000	50,000	-
Medi-Cal settlement for prior years	-	964,374	-	-
Unrestricted net assets, beginning of year	<u>1,880,057</u>	<u>463,331</u>	<u>167,386</u>	<u>699,422</u>
Unrestricted net assets, end of year	<u>\$ 1,987,744</u>	<u>\$ 1,880,057</u>	<u>\$ 463,331</u>	<u>\$ 167,386</u>

* Period ending December 31, 2001 is for eleven (11) month period.

SEQUOIA COMMUNITY HEALTH FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

	March 31 2003	As of December 31		Jan. 31 2001
ASSETS	(Unaudited)	2002	2001 *	2001
Current Assets:				
Cash & Cash Equivalents	\$ 1,123,631	\$ 1,123,158	\$ 805,628	\$ 682,074
Patient Accounts Receivables, net	1,062,077	972,670	606,306	1,026,617
Contracts Receivables	72,115	36,726	27,878	150,114
Contribution Receivable	40,000	40,000	-	-
Prepaid Expenses & Other	109,342	102,375	76,097	63,076
Total Current Assets	2,407,165	2,274,929	1,515,909	1,921,881
Property & Equipment, net	4,486,851	4,438,615	4,467,857	4,409,915
Restricted Cash	603,264	615,750	-	-
Assets Whose Use Is Limited	583,495	538,893	500,131	503,131
Bond Insurance Costs, net	159,892	162,044	170,654	197,861
TOTAL ASSETS	\$ 8,240,667	\$ 8,030,231	\$ 6,654,551	\$ 7,032,788
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accrued Expenses	\$ 314,009	\$ 366,545	\$ 343,520	\$ 507,212
Accrued Compensation	556,213	453,873	486,970	465,939
Program Liabilities	85,554	-	-	-
Refundable Advances	-	-	175,965	-
Due To Third Parties	-	-	129,059	345,311
Lines of Credit	-	-	166,583	524,854
Current Portion of Long Term Debt	81,354	81,354	20,713	20,144
Current Portion of Bonds Payable	130,000	130,000	127,083	115,000
Total Current Liabilities	1,167,130	1,031,772	1,449,893	1,978,460
Long Term Liabilities				
Notes Payable, less current portion	707,529	727,652	833,410	853,965
Bonds Payable, less current portion	3,745,000	3,745,000	3,827,917	3,982,977
TOTAL LIABILITIES	5,619,659	5,504,424	6,111,220	6,815,402
NET ASSETS:				
Unrestricted	1,987,744	1,880,057	463,331	167,386
Temporarily Restricted	633,264	645,750	80,000	50,000
TOTAL LIABILITIES & NET ASSETS	\$ 8,240,667	\$ 8,030,231	\$ 6,654,551	\$ 7,032,788
Financial Ratios:				
	Proforma (1)			
Debt Service Coverage (x)	1.94	2.53	1.99	(0.16)
L.T. Debt/Unrestricted Net Assets (x)	3.16	2.49	10.38	29.70
Margin (%)		3.93%	3.03%	-6.35%
Current Ratio (x)		2.20	1.05	0.97

* Period ending December 31, 2001 is for eleven (11) months

(1) Recalculates December 2002 audited results to include the impact of this financing & the Health Cap loan.

Financial Discussion:

SCH operating results have steadily improved over our review period.

SCH's net income increased over \$370,000 in FY 2002 and \$ 245,000 in 2001 as a result of a 17% increase in patient visits while expenses remained stable. SCH did suffer a loss of over \$500,000 in FY ending January 31, 2001, primarily due to extended hours at three of the SCH's locations. With the extended hours, SCH increased the number of uninsured patients with no additional funding to cover the costs. SCH has taken steps to reduce expenses by restructuring senior management and temporarily closing the Easton location (on May 31, 2001) due to cost containment issues. The Easton location was reopened on January 2, 2003 due to demand for services.

SCH's balance sheet remains solid with good liquidity and a satisfactory projected debt service coverage ratio.

SCH's balance sheet is solid with good liquidity and significant net assets. SCH's strong liquidity is exhibited by its \$1.1 million cash position in fiscal year 2002. The unrestricted net asset balance has grown from approximately \$167,000 in fiscal year 2000 to nearly \$1.9 million in fiscal year 2002. This was due to SCH's increase in net income and a settlement of over \$900,000 in Medi-Cal cost underpayments for FY ending January 31, 2001. SCH's net assets continue to grow, its debt-to-unrestricted net assets ratio for fiscal year 2002 is at 2.49 and the current debt service coverage is a solid 2.53.

With the proposed HELP II loan, HealthCAP loan and the Direct Loan from NCBDC, the proforma debt service coverage will be satisfactory at 1.94x, indicating that SCH will be able to manage future debt service payments. SCH will be leveraged with a projected debt-to-unrestricted net assets ratio of 3.16.

III. UTILIZATION STATISTICS:

**Sequoia Community Health Foundation, Inc.
Encounters & Patients**

<u>Type of Service</u>	<u>As of Mar 31</u> <u>2003</u>	<u>As of Dec 31</u>		<u>Jan 31</u> <u>2001</u>
		<u>2002</u>	<u>2001</u>	
Encounters				
Medicare	966	4,090	3,997	539
Medi-Cal	9,952	37,084	34,793	36,849
CHDP	1,415	7,020	7,182	2,079
Expanded Access/Primary*	0	2,663	0	0
Private & Public Insurance	3,053	11,293	10,017	5,979
Self Pay & Private Sliding	4,055	13,197	15,764	18,707
Totals	19,441	75,347	71,753	64,153
Patients				
Medicare	210	811	835	1,051
Medi-Cal	2,129	7,516	4,140	7,658
CHDP	711	2,759	5,109	693
Expanded Access/Primary*	0	738	0	0
Private & Public Insurance	361	1,405	2,653	3,307
Self Pay & Private Sliding	1,978	7,658	8,023	7,647
Totals	5,389	20,887	20,760	20,356

* This program started on January 1, 2002, but has not been approved for funding in fiscal year 2003.

IV. ORGANIZATION:

Background: SCH is a licensed, nonprofit community health center that provides primary medical care, health education and client advocacy to the underserved population in Fresno County. SCH has operated community and migrant health centers in Fresno County since 1978. SCH currently operates five health centers in central and southwest Fresno County. SCH is the only Federally Qualified Health Center operating in the area, and the only primary care provider to offer a sliding fee scale program. SCH physicians have hospital admitting privileges at Community Medical Center in downtown Fresno. SCH shares a partnership with the UCSF-Fresno Medical Education program through its Sequoia Family Practice Residency Pathway.

Licenses: SCH is licensed by the State Department of Health Services as a Community Clinic.

Competition: SCH and University Medical Centers (UMC) provide nearly all targeted primary care services in the area. UMC is approximately 5 miles away and has 23% of the market share with SCH the remaining portion.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 12/31/02*	Estimated Amount Outstanding After Proposed Financing
Existing:			
City of Fresno, 1993	\$629,455	\$629,455	\$629,455
CPCA/NCB, 2000	244,655	179,551	179,551
COP, 1993 & 2000 **	4,435,000	3,875,000	3,875,000
Proposed:			
CHFFA HELP II Loan, 2003		N/A	400,000
Health CAP Loan, 2003		N/A	538,420
Direct Loan, 2003		N/A	321,580
TOTAL DEBT		\$4,684,006	\$5,944,006

* Includes current portion of long term debt & current portion of bonds.

** Cal Mortgage Insured

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

SCH has provided a description of its savings pass through in Exhibit A.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To Advise each person seeking services at the borrower’s facility as to the person’s potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard “Certification and Agreement Regarding Community Service Obligation”.

SCH has executed this certificate and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Sequoia Community Health Foundation, Inc., subject to a final appraised value on the subject property satisfactory to the Authority, final approval of the HealthCAP loan and Direct Loan or other acceptable lender to the Authority, approval from Cal Mortgage to incur additional indebtedness and the standard HELP II loan provisions.